

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

Periodic Reporting  
(Proposals Six Through Nine)

Docket No. RM2014-1

PUBLIC REPRESENTATIVE COMMENTS

(December 5, 2013)

I. Introduction

On November 8, 2013, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting the Commission initiate an informal rulemaking proceeding to consider three changes to analytical principles for use in periodic reporting.<sup>1</sup> On November 12, 2013, the Postal Service filed an errata to its Petition to add Proposal Nine attached to its Revised Petition.<sup>2</sup> On November 14, 2013, the Commission issued Order No. 1887, which appointed the undersigned Public Representative and established a Comment deadline of December 2, 2013.<sup>34</sup>

Each of the Postal Service's proposals is an improvement or a refinement to the current methodology. As such, the Public Representative supports approval and implementation of the proposals, with one exception. As detailed in the comments below, the precise calculations for some of the proposals have not been provided by the Postal Service in this docket. To ensure that the methodologies are accurately applied in future dockets, the Public Representative suggests that the Postal Service file supplemental workpapers detailing the proposed changes.

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposals Six through Eight), November 8, 2013 (Petition).

<sup>2</sup> Notice of the United States Postal Service of Revision to Add Proposal Nine to the Petition for Rulemaking – Errata, November 12, 2012 (Revised Petition).

<sup>3</sup> Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Six Through Nine) (Order No. 1887) November 14, 2013.

<sup>4</sup>See “Public Representative Motion For Late Acceptance.” (December 5, 2013).

Additionally, the Public Representative proposes the Commission open a rulemaking to analyze SFS costing workpapers in detail.

## II. Proposal 6: Proposed Changes in Stamp Fulfillment Services (SFS) Handling and Philatelic Sales Cost Estimation Model

### A. Background

Stamp Fulfillment Services was added as a Market Dominant Product in FY 2010.<sup>5</sup> The cost coverage of Stamp Fulfillment Services has been problematic since it was added as a Market Dominant Product. The following table contains the Cost Coverage of Market Dominant Stamp Fulfillment Services (MD SFS) and Non Postal Philatelic Sales (NP Philatelic) starting in FY 2010.<sup>6</sup>

Product	Fiscal Year	Units	Cost	Revenue	Cost Coverage %
MD SFS	2010	3,099,425	\$ 5,778,908	\$ 3,069,349	53.1%
MD SFS	2011	2,711,459	\$ 5,238,523	\$ 3,126,445	59.7%
NP Philatelic	2011	173,144	\$ 838,164	\$ 171,954	
MD SFS	2012	2,604,390	\$ 5,566,808	\$ 3,298,493	59.3%
NP Philatelic	2012	263,169	\$ 6,523,854	\$ 10,647,495	163.2%
Source;					
FY 2010 ACD at 124					
FY 2011 ACD at 137,168					
FY 2012 ACD at 136, 178 Volume from CHIR 1 Q12					

As detailed in the table, the costs and revenues tracked in the ACD for SFS and Philatelic Sales have changed dramatically over the past three years. The file “StFS2010.xls” was included by the Postal Service in LR-USPS-FY10-28. This was the earliest iteration of a cost spreadsheet for SFS that the Public Representative has been able to locate. In Order No. 487, approving the addition of SFS to the Market Dominant

<sup>5</sup> See Order No. 487. [http://www.prc.gov/Docs/69/69032/Order\\_No\\_487.pdf](http://www.prc.gov/Docs/69/69032/Order_No_487.pdf)

<sup>6</sup> In the FY 2010 ACD, in response to CHIR 4 question 6, the Postal Service estimated the cost and revenue of SFS excluding Philatelic Sales. However, this number was not incorporated into the CRA until FY 2011. See FY 2010 ACD at 129, footnote 63.

Product list, the Commission summarized the impending issue of separating SFS costs and revenues from Philatelic sales costs and revenues:

CHIR No. 3 also requested the Postal Service to explain how it will allocate revenues and expenses between SFS and Philatelic Sales products when it receives combined orders for stamps and philatelic items. In its response, the Postal Service notes that only 5 percent of transactions are expected to involve such combined orders, and that it is working on a method for allocating revenues and expenses between SFS and Philatelic Sales for combined orders. Response to CHIR No. 3 at 3. When development of the allocation methodology is completed, the Postal Service will be expected to petition for approval of that methodology pursuant to 39 CFR 3050.11 of the Commission's regulations. Order No. 487 at 5-6.

The Public Representative has been unable to find any other Rulemaking Dockets related to Stamp Fulfillment Services.<sup>7</sup> Given the historical cost coverage difficulties encountered by SFS, it seems important to get SFS costing correct. The Postal Service has not provided SFS workpapers in this docket. As such, the Public Representative has attempted to reverse engineer the proposed changes based upon the impact table provided by the Postal Service. The Public Representative has attached an Appendix to these comments, "SFS and Philatelic Sales Appendix" to evaluate some of the undocumented calculations in the costing workbooks.

#### B. Postal Service Proposal

The Postal Service proposes to update its methodology for calculating the costs for Philatelic Sales and the handling costs of SFS in order to align the product description in the Mail Classification Schedule (MCS). The Postal Service summarizes the current mis-alignment:

For Philatelic Sales, the Postal Service estimates the "end-to-end" costs. In other words, it estimates the costs from all activities that are related to Philatelic Sales, including "handling." For SFS handling cost and revenue, the current methodology estimates ALL the handling costs and ALL the revenue of the products handled by the Stamp Fulfillment Services organization, including Philatelic Sales, Stamps, and Retail Products. The MCS, however, classifies the "Handling" for Philatelic Sales as "Philatelic Sales," and not "SFS."

Proposal 6 at 1.

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<sup>7</sup> This is not to imply that one does not exist, simply that the PR has been unable to find reference to such a docket.

The Postal Service proposes to adjust the SFS and Philatelic sales workpapers to reflect the MCS. The following table details the distribution of SFS Orders in FY 2012.

<b>SFS Orders Fulfilled</b>			
<b>FY2012</b>			
<b>Orders</b>		<b>Orders Filled<sup>2</sup></b>	<b>%</b>
Stamps		2,582,474	87.9%
<i>Mail Use</i>		2,125,005	82.3%
<i>Philatelic</i>		457,470	17.0%
Philatelic		132,801	4.5%
Combined		152,284	5.2%
SFS Total		2,867,559	97.6%
<b>Subscriptions<sup>1</sup></b>			
Stamps		28,724	1.0%
Philatelic		43,085	1.5%
Total Subscriptions		71,809	2.4%
Total		2,939,368	
Philatelic		633,356	21.5%
SFS		2,153,728	73.3%
Combined		152,284	5.2%
			100.0%

For the FY2012 ACD, the Postal Service provided the following distribution of Orders:

<b>Product</b>	<b>Fiscal Year</b>	<b>Units</b>
MD SFS	2012	2,604,390
NP Philatelic	2012	263,169
Total		2,867,559

It appears that the cost and revenue of at least 370,187 Philatelic Sales orders were distributed to SFS using the current methodology in FY 2012. The calculation of orders by product type is unclear. The total number of orders for SFS and Philatelic Sales in the 2012 ACD was 2,867,559.<sup>8</sup> It is not clear if the Postal Service intends to distribute the cost and revenue of combined SFS and Philatelic Sales orders with the current proposal. At a minimum, it appears that the correct number of orders for Philatelic Sales was 633,356 in FY 2012.

The following table contains the costs and revenues for SFS and Philatelic sales using both the Current and Proposed methodologies with FY 2012 data.

<sup>8</sup> The tab "Handling\_LR" estimates an additional 10,000 orders as detailed in the footnote on that tab. The SFS spreadsheet contains details for 2,939,368 orders, including 152,184 combined orders. The spreadsheet for FY 2011 noted that "subscription" orders "as shipped without fees assessed."

		<b>FY 2012</b>	<b>Proposed</b>	<b>Difference</b>
<b>MD SFS</b>	<b>Revenue</b>	\$ 3,298,493	\$ 2,942,256	\$ (356,237)
<b>NP Philatelic</b>	<b>Revenue</b>	\$ 10,647,495	\$ 11,003,732	\$ 356,237
<b>Total</b>	<b>Revenue</b>	\$ 13,945,988	\$ 13,945,988	\$ -
<b>MD SFS</b>	<b>Cost</b>	\$ 5,566,808	\$ 5,167,123	\$ (399,685)
<b>NP Philatelic</b>	<b>Cost</b>	\$ 6,523,854	\$ 7,717,366	\$ 1,193,512
<b>Total</b>	<b>Cost</b>	\$ 12,090,662	\$ 12,884,489	\$ 793,827

The table shows that \$356,237 in revenue would be shifted from MD SFS under the proposed methodology. The MD SFS and Philatelic Sales workpapers<sup>9</sup> do not contain revenues for FY 2012. The FY 2012 CRA is the only source of SFS revenue the Public Representative could locate. Without any information on revenue distribution, the Public Representative cannot comment on the proposed method of revenue distribution.

Regarding the proposed cost methodology, there is considerable confusion. First, the difference in SFS cost reignites the issue of double counting raised by the Commission in CHIR no 10 question 2. The reduction in SFS cost is \$399,685. The Handling cost of Philatelic Sales for FY 2012 was an estimated \$399,685.<sup>10</sup> On the surface, it appears that there was indeed double counting and the proposed methodology would remove the issue. That however, does not explain the addition of over \$1 million in costs for Philatelic Sales. The Postal Service notes that it is adding Window Service costs for Philatelic Sales. The Postal Service states:

Cost Studies Support data collectors observed a total of 725 retail Philatelic items sold from January through April 2013, and the average time per Philatelic item is 0.67 minute (40 seconds). With appropriate miscellaneous, waiting time, and piggyback factors, the average window cost per Philatelic item in FY 2012 is \$0.93. The reported total USPS Philatelic Sales costs would have been approximately \$1.2M higher if window costs for Philatelic Products had been included in the FY2012 Philatelic Products cost estimation work paper.

Thus, the addition of \$1,193,512 in cost to Philatelic Service appears to be due to the addition of Window Service costs. The calculation provided is a bit confusing. The

<sup>9</sup> "StFS2012.xls" and "SfTS Philatelic.xls" are contained in LR-USPS-FY12-28.  
<http://www.prc.gov/Docs/85/85971/USPS-FY12-28.Preface.pdf>

<sup>10</sup>See "StFS Philatelic.xls" "SFS Philatelic Products Work hour" table on page 5 of the Appendix.

Postal Service states that “about fifty percent” of Philatelic items were sold via the retail channel, and thus incurred window service costs. When discussing window service costs, the Postal Service discusses Philatelic Sales in terms of items instead of orders. At under \$1 in window service cost per item, the total number of Philatelic items sold via the retail channel would have to be roughly 1.3 million items to incur over \$1.1 million in window service costs. The total number of philatelic orders discussed in these comments is between 260 and 630 thousand in FY 2012. It is understandable that orders will contain multiple items, and seems possible that roughly 2.5 million items Philatelic items were sold in FY 2012. If this is the case the Postal Service should report the number of items sold and the channel of sale in the spreadsheets for FY 2013.

### C. Summary

For Proposal 6, the Postal Service provided a summary table of the impact of the proposed changes in methodology. The Public Representative has attempted to recreate the calculation in order to ascertain the veracity of the proposal. As detailed in the Appendix, the SFS and Philatelic Sales workpapers primarily contain hardcoded estimates of the cost of these services. Given the long running cost coverage issues in SFS, the Commission should open a rulemaking to further examine the costing methodology. The Postal Service’s response to ACD FY 2012 CHIR No. 11 question 2 leaves the impression that Philatelic Sales Handling cost is not double counted in the SFS spreadsheets. Given that the amount of cost that proposal 6 would transfer away from SFS is the same amount, it appears that the proposal removes the double counting.<sup>11</sup> Regarding the revenue shift and addition of Window Service costs for Philatelic Sales, the Commission should request the spreadsheets containing the

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<sup>11</sup>It is unclear if the Postal Service proposes to increase the amount of Handling cost for Philatelic Sales. It appears that the only costs transferred to Philatelic sales via the proposal are related to window service costs. Thus, the Handling costs appear to be subtracted from SFS but not added to Philatelic Sales, suggesting they are already accounted for.

calculations to ensure accuracy. The Public Representative recommends the Commission approve Proposal 6.

### III. Proposal 7: Change in Attributable Costs for Competitive Post Office Box Service Enhancements

#### a. Background

Competitive Post Office Boxes are a Competitive Product where customers can choose to use a street address instead of P.O. Box number. The Postal Service accepts and “delivers” parcels from Third Party Carriers to these P.O Boxes. The acceptance and delivery of these parcels is a modeled cost in the Competitive P.O. Box Attributable Cost workpapers. Additionally, the Postal Service sends electronic notifications to Competitive P.O. box customers. The technology costs of this service are also included as a hardcoded number in the Competitive P.O. Box Attributable Cost workpapers. In the FY 2012 ACD, the Commission directed the Postal Service to “develop a costing methodology that adequately measures the attributable costs of the enhanced services for the competitive Post Office Box service.” FY 2012 ACD at 163. The Postal Service proposal is a response to the Commission’s direction.

#### b. Postal Service Proposal

The Current methodology for estimating the volume and cost of parcels from Third Party Carriers is shown below.

$$\begin{array}{ccccccc} & \text{Handling} & & \text{Annual Average} & & \text{Annual Average} & \\ & & & & & & \\ \text{Third-Party Package} = & \text{Cost per} & \text{X} & \text{Number of} & \text{X} & \text{Number of Third-Party} & \\ \text{Handling Costs} & \text{Package} & & \text{Customers} & & \text{Packages Received} & \\ & & & & & \text{per Customer} & \end{array}$$

The Postal Service does not propose to change this method of calculation. The Postal Service proposes to update one of the variables, Annual Average Number of Third-Party Packages Received per Customer. The Postal Service notes that the old study

relied on a survey of 49 locations around the times when the service was established.

The new study is detailed by the Postal Service:

A sample of 200 post offices was selected (from the 4,968 offices that had at least one Post Office Box street addressing customer) in order to estimate the number of third-party carrier packages per customer. The offices were selected randomly with the probability of selection in proportion to their number of Post Office Boxes with street addressing – in other words, Probability Proportional to Size (PPS) sampling. As a result, the 200 selected offices had nearly 11 percent of the total Post Office Boxes with street addressing. Data on the number of third-party carrier packages received was collected during the week of June 3 to June 7. The weighted average estimate of the number of packages per customer per year was obtained with a CV of 10 percent.

Proposal 7 at 2, footnote 2.

The Public Representative has reviewed the Non-Public PDF filed by the Postal Service in addition to the public filing. The Postal Service has not provided details of the calculation of the new sampled estimate.

Regarding the technology costs, the Postal Service has provided a detailed description of the component costs of the services, but no additional calculations.

#### c. Summary

The Postal Service proposes to replace an outdated survey estimate with a new, more statistically valid, sampled estimate for the volume of third party parcels. The new sampled estimate provided by the Postal Service is a clear improvement on the previous estimate of Annual Average Number of Third-Party Packages Received per Customer. However, the Postal Service notes that the CV of the new estimate is 10 percent. It is unclear if a one week survey of roughly 11 percent of the Competitive P.O. Boxes is sufficient to accurately assess the volume. The Postal Service has not provided the underlying data, as such the Public Representative was unable to assess the fidelity of the calculations. The Public Representative supports acceptance of the new sample, but cautions that further work in this area may be necessary to lower the CV of the volume estimate.

### IV. Proposal 8: Changes to MODS Operation Groups for Productivity Calculations

#### a. Background

The engineering cost models for Market Dominant Products, such as First-Class Presort Letters, rely on the accuracy of the operational productivities developed using MODS



data. The productivity of mail processing operations is calculated by combining sets of MODS codes in cost pools, for example the DBCS Incoming Secondary operation. Each year, the MODS codes used in USPS facilities are updated to reflect new technologies and discontinued machines and processes. With Proposal 8, the Postal Service has provided an update to the productivity spreadsheet to reflect the MODS codes in use in FY 2013. The Postal Service also proposes additional changes intended to improve the accuracy of productivity estimates.

b. Postal Service Proposals

The Postal Service proposes to alter the distribution of work hours and volume of the following MODS groups: Consolidate UFSM 1000 Groups; Discontinue LIPS Outgoing Group; Discontinue ISS and OSS Return to Sender Groups; Consolidate Incoming and Outgoing Operation Groups Within Manual Letters and Manual Flats; Discontinue Manual Letters, Incoming Secondary Group; and Add Tray Sorting Groups. Each of the technical changes is discussed below.

**Consolidate UFSM 1000 Groups**

The Postal Service proposes to consolidate UFSM operations from 8 groups into 2 groups, Outgoing and Incoming. The Postal Service notes that total cost of the operation of all UFSMs in FY 2012 was \$14.3 million. There were over 412 million pieces fed to the UFSM in FY 2012 and over 276 thousand workhours. A few low volume and workload operations appear to be driving the need to consolidate these groups. The following table details the workhours and productivities of the UFSM operations in FY212 and the proposed productivities.<sup>12</sup>

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<sup>12</sup> In reviewing the UFSM spreadsheets, the Public Representative was unable to replicate the Incoming and Outgoing Productivity estimates of the Postal Service. The following table details the calculation of combined productivities. There is a small difference between the Total TPF and Hours recorded in USPS-FY12-23 and the file "Prop.8.YRscrub.xls" provided by the Postal Service. The Public Representative encourages the Commission to reconcile the discrepancy in these calculations if the proposal is accepted.

USPS-FY12-23 DATA	<u>Total TPF</u>	<u>Total Hours</u>	<u>TPF/Hour</u>	<u>Proposed</u>	<u>Difference</u>
<b>UFSM1000 HSF Out Primary</b>	22,286	19,431	1,147	853	(294)
<b>UFSM1000 HSF Out Secondary</b>	378	481	787	853	66
<b>UFSM1000 Key Out Primary</b>	8,159	16,524	494	853	359
<b>UFSM1000 Key Out Secondary</b>	1,251	1,180	1,060	853	(208)
<b>Total Outgoing</b>	32,074	37,615	853		
<b>UFSM1000 HSF In MMP</b>	8,992	5,009	1,795	1,546	(250)
<b>UFSM1000 HSF In SCF</b>	112,370	80,702	1,392	1,546	153
<b>UFSM1000 HSF In Primary</b>	0	0	na	1,546	
<b>UFSM1000 HSF In Secondary</b>	242,638	130,692	1,857	1,546	(311)
<b>UFSM1000 Key In MMP</b>	3	140	19	1,546	1,526
<b>UFSM1000 Key In SCF</b>	1,423	1,654	860	1,546	685
<b>UFSM1000 Key In Primary</b>	7,319	22,483	326	1,546	1,220
<b>UFSM1000 Key In Secondary</b>	1,091	1,179	926	1,546	620
<b>Total Incoming</b>	373,836	241,859	1,546		

The proposed change appears to be driven by two concerns. One, there were no workhours or volumes recorded in “HSF In Primary” in FY 2012. Second, the variation in productivities between operations was substantial. The lack of data in “HSF In Primary” was a new problem in FY 2012; nearly 20 thousand workhours were recorded in that operation in FY 2011. It appears that the facilities still using UFSMs have stopped using the MODS code for the UFSM Incoming Primary operation. As such, the combining of operations into larger groups seems reasonable.

### **Discontinue LIPS Outgoing Group**

In FY 2012, there were 210 hours recorded in the LIPS Outgoing Parcel Sort operation. The Postal Service reports that the underlying MODS codes are no longer used. The Public Representative supports removing this operation from the LR-23 productivity workpapers.

### **Discontinue ISS and OSS Return to Sender Groups**

In FY 2012, there were 413 workhours recorded in the ISS and OSS Return to Sender Groups. The Postal Service accurately reports that the productivities are no longer used in the letter mailflow models. The Public Representative supports removing these operations from the LR-23 productivity workpapers.

## Consolidate Incoming and Outgoing Operation Groups Within Manual Letters and Manual Flats

The following table details the changes in TPF, workhours, and estimated Productivity for manual Letter and Flats operations from FY 2008 to FY 2012.

		2008			2012		
		Total TPF	Total Hours	TPF/Hour	Total TPF	Total Hours	TPF/Hour
Manual Out Primary	Letters	3,507,019,670	5,859,242	599	2,416,051,918	3,643,636	663
Manual Out Secondary	Letters	712,643,330	925,746	770	466,210,429	461,896	1,009
Manual In MMP	Letters	944,244,230	2,171,235	435	1,116,369,729	1,052,815	1,060
Manual In SCF/Primary	Letters	2,332,439,520	4,390,308	531	2,295,573,440	2,283,760	1,005
Total	Letters	7,496,346,750	13,346,532	561.7	6,294,205,516	7,442,106	845.8
Manual Out Primary	Flats	354,190,650	951,099	372	517,954,292	934,666	554
Manual Out Secondary	Flats	53,108,640	167,256	318	58,140,454	109,755	530
Manual In MMP	Flats	243,878,370	643,230	379	352,462,841	532,146	662
Manual In SCF	Flats	724,532,620	1,998,403	363	781,807,348	1,543,385	507
Manual In Primary	Flats	290,706,020	893,819	325	239,379,238	463,072	517
Manual In Secondary	Flats	329,800,270	849,225	388	72,373,587	198,199	365
Total	Flats	1,996,216,570	5,503,032	362.7	2,022,117,760	3,781,223	535

The Postal Service states that the method for calculating the Total TPF for manual sorting operations has changed since FY 2008, when the Postal Service ceased weighing the mail. The process for estimating manual volumes processed, in the absence of machine counts, is difficult. The Postal Service states that the current process is to “impute manual workloads from automation workloads.” The Postal Service states that “the Postal Service has observed that productivities for relatively small manual operation groups, such as secondary distribution operations, have been less stable. These may be more sensitive to small errors in the factors used to impute manual workloads. Changes to mailflows due to facility consolidations may contribute to instability of the manual productivities. The Postal Service believes that consolidating operation groups within manual letters and manual flats will lower the risk of future productivity shocks to cost estimates.” Proposal 8 at 3.

The following table contains productivities for manual operations for FY 2008, 2011 and 2012.

		<b>2008</b>	<b>2011</b>	<b>2012</b>
Manual Out Primary	Letters	599	731	663
Manual Out Secondary	Letters	770	980	1,009
Manual In MMP	Letters	435	1,087	1,060
Manual In SCF/Primary	Letters	531	1,019	1,005
Manual Out Primary	Flats	372	550	554
Manual Out Secondary	Flats	318	508	530
Manual In MMP	Flats	379	676	662
Manual In SCF	Flats	363	523	507
Manual In Primary	Flats	325	503	517
Manual In Secondary	Flats	388	621	365

The only operation with a major shift in productivity is Manual Incoming Secondary for Flats. The Public Representative is unconvinced that these operations groups need to be aggregated. In the case of the UFSM, as discussed above, the total workhours in FY 2012 was 276 thousand. With the exceptions of Manual Outgoing and Incoming Secondary Flats processing operations, each of the manual operations has more hours than all of the UFSM operations. Given that the piece counts for manual operations are a computed number, not derived from piece counts, it seems that the Postal Service could address anomalous productivities by examining the underlying data and correcting errors in the volume calculation spreadsheets.

The Postal Service proposal has significant avoided cost impacts. In the Letter mailflow models, all nonautomation nonmachinable mail is first processed in the manual outgoing secondary operation. The productivity of the manual secondary operation is significantly higher than the manual primary productivity, as detailed in the following table.<sup>13</sup>

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<sup>13</sup>Note that the combined productivities in this table differ from the productivities hard-coded in the file "Prop.8.YRscrub2012.xls" provided by the Postal Service. For example, the Manual Outgoing Letter combined productivity is calculated as 702 using the data in "YRscrub.xls" and hard-coded as 704 in "Prop.8.YRscrub2012.xls." If the Commission approves the proposal to consolidate manual productivities, it should ensure the combined productivities are accurately calculated.

		2012				
		Total TPF	Total Hours	TPF/Hour	COMBINED	Difference
Manual Out Primary	Letters	2,416,051,918	3,643,636	663	702.0	38.96
Manual Out Secondary	Letters	466,210,429	461,896	1,009	702.0	(307.30)
Manual Outgoing Combined	Letters	2,882,262,347	4,105,531	702.0		
Manual In MMP	Letters	1,116,369,729	1,052,815	1,060	1,022.6	(37.78)
Manual In SCF/Primary	Letters	2,295,573,440	2,283,760	1,005	1,022.6	17.42
Manual Incoming Combined	Letters	3,411,943,169	3,336,574	1,022.6		
Manual Out Primary	Flats	517,954,292	934,666	554	551.6	(2.57)
Manual Out Secondary	Flats	58,140,454	109,755	530	551.6	21.86
Manual Outgoing Combined	Flats	576,094,746	1,044,421	551.6		
Manual In MMP	Flats	352,462,841	532,146	662	528	(133.98)
Manual In SCF	Flats	781,807,348	1,543,385	507	528	21.81
Manual In Primary	Flats	239,379,238	463,072	517	528	11.43
Manual In Secondary	Flats	72,373,587	198,199	365	528	163.21
Manual Incoming Combined	Flats	1,446,023,014	2,736,802	528		

The productivity of the manual outgoing secondary letter operation exhibits the largest change in productivity. Simply, the Postal Service has not provided empirical evidence that the productivity of this operation, relative to other manual operations, has been historically overstated. Given the process for estimating processed volume and calculating manual productivities, it is possible that the volume and productivity have been historically overstated. The Commission should request that the Postal Service further analyze this issue before implementing the current proposal.

### **Discontinue Manual Letters, Incoming Secondary Group**

In FY 2012, there were 1,174,362 workhours recorded in the Manual Letters Incoming Secondary Group. The Postal Service accurately reports that the productivity is no longer used in the letter mailflow models.<sup>14</sup> It is unclear why the amounts of volume and workhours of letters in Incoming Secondary manual sortation operation are so large. Furthermore, the productivity estimate of 320 TPH/Hour is nearly 3 times lower than

<sup>14</sup>In Docket No. RM2011-5, Order No. 741, the Commission approved reducing the manual plant carrier route finalization to zero. See [http://www.prc.gov/Docs/73/73134/Order\\_No\\_741.pdf](http://www.prc.gov/Docs/73/73134/Order_No_741.pdf) at 9-10. At that time, the Commission cited the Postal Service's claim that "only plants that essentially house delivery units have manual incoming secondary operations." Order No 741 at 9.

other manual letter sortation operations, and lower than the Flat Incoming Secondary manual sortation operation. The combination of high workhours and low volume suggest that there may be misclocking in the Manual Letters Incoming Secondary Operation. In Docket No. RM2011-5, the Postal Service stated that plants no longer had manual incoming secondary letter sorting operations. The persistence of nearly 20 percent of manual letter workhours being recorded in this operation is problematic. The Postal Service proposes to remove this operation from the LR-23 workpapers, which is reasonable given that the mailflow models do not require this estimate. The Public Representative suggests that the Commission request additional information from the Postal Service concerning the accuracy of the reported data.

### **Add Tray Sorting Groups**

The Postal Service reports that in FY 2012, there were 6.374 million workhours in the Tray Sorting Operations. Modeling the Tray Sorting operation is a positive improvement for the letter models. There are two items of note regarding the Tray Sorting Productivity. First, it does not appear that the Tray Sorting Operation is currently included in the Letter cost models, such as Prop.8.STD.LTRS.<sup>15</sup> As such, it is unclear how the new productivities will be used. It seems plausible that the Postal Service will propose a future rulemaking to include the Tray Sort operations in the letter models. Second, there appears to be a high variation in Tray Sorting Productivities by location. The Postal Service notes that the errors appear to be symmetric and large number of observations should be sufficient to provide reliable productivities. Given the lack of historical data, it is unclear how much Tray Sorting Productivity depends on the data scrubbing procedure.

#### **c. Summary**

The following table summarizes the position of the Public Representative regarding the changes in methodology in Proposal 8.

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<sup>15</sup>The Tray Sort cost pool is currently classified as "Allied/Support." If there is a worksharing relationship with the occurrence of a tray sorting operation, the Postal Service will need to address that aspect of the letter model as well.

	<b>Recommendation</b>	<b>Notes</b>
<b>Consolidate UFSM 1000 Groups</b>	Approve	Ensure Accurate Calculation
<b>Discontinue LIPS Outgoing Group</b>	Approve	
<b>Discontinue ISS and OSS Return to Sender Groups</b>	Approve	
<b>Consolidate Incoming and Outgoing Operation Groups Within Manual Letters and Manual Flats</b>	Further Investigation	Volume Accuracy Questionable
<b>Discontinue Manual Letters, Incoming Secondary Group</b>	Approve	Investigate Persistent Workhours
<b>Add Tray Sorting Groups</b>	Approve	Ensure Accurate Calculation

V. Proposal 9 Changes to In-Office Cost System (IOCS) Encirclement Rules

a. Background

Beginning January 27, 2013, the Postal Service began to provide Delivery Confirmation as a free service for Priority Mail (retail), Standard Post (retail), Parcel Select Lightweight, and First-Class Package Service. The Postal Service proposes to assign the cost of Delivery Confirmation to the host pieces, rather than the Delivery Confirmation Special Service Product.

b. Postal Service Proposal

The Postal Service states that “encirclement is the process of assigning the cost of handling a mailpiece with an Extra Service to the Extra Service rather than to the host mailpiece. The Postal Service states that encirclement is warranted when an Extra Service is the primary reason that an employee has to handle a mailpiece.” Revised Petition, Proposal 9 at 1. The Postal Service notes that, since Delivery Confirmation is now included in the above listed products, the costs to be assigned to the host pieces. The Postal Service has not provided workpapers or IOCS cost assignment codes to detail how it plans to implement the proposal.

c. Summary

The Public Representative supports approval of the proposal. The Commission should ensure that the calculations match the concept of the methodology.

VI. Conclusion

The Public Representative respectfully submits these comments for consideration.

Respectfully Submitted,

/s/ John P. Klingenberg

John P. Klingenberg  
Public Representative for  
Docket No. RM2014-1

901 New York Avenue, N.W., Suite  
200  
Washington, DC 20268-0001  
(202) 789-6863; Fax (202) 789-6891  
e-mail: [john.p.klingenberg@prc.gov](mailto:john.p.klingenberg@prc.gov)



### SFS and Philatelic Sales Appendix.

The Public Representative has been unable to locate any documents detailing the calculations in the SFS and Philatelic Sales workpapers. Thus, the following discussion is what can be inferred from the spreadsheets and may contain inaccuracies.

The determination of the amount of Handling workhours, the main driver of SFS cost, does not appear to be derived from any other workbooks.<sup>16</sup> The only SFS related cost that Public Representative has been able to identify in other USPS library references is the Total Cost of SFS, which can be found in the Public CRA. As a starting point, it is unclear how the SFS cost in the CRA is calculated. It is possible the CRA cost of SFS is a starting point for the workbook. It seems equally plausible that the SFS cost calculated in the SFS workbook is used for the CRA, given the current proposal. There is no explicit CRA adjustment in the SFS workbooks.

The lynchpin of the SFS costing workbook appears to be the tab “Handling\_LR” which is shown in the table below.

SFS Handling Costs						
FY2012	% of Orders	Total Orders Filled	Total Work Hours <sup>1</sup>	Direct Labor Costs	Direct Labor Costs with Misc Factor	Total Costs
<b>Softpick</b>						
Manual Packstation	15.25%	449,802	21,464.3	\$ 883,601.02	\$ 1,149,457.82	\$ 2,112,654.64
Semi-Automated Packstation	20.05%	591,492	3,894.0	\$ 160,300.55	\$ 208,531.59	\$ 383,272.20
Batches	14.20%	418,818	8,758.9	\$ 360,568.39	\$ 469,055.77	\$ 862,104.57
<b>Inserters</b>	3.68%	108,409	351.0	\$ 14,449.28	\$ 18,796.76	\$ 34,547.65
Big Pitney Bowes						
Little Pitney Bowes						
Bell and Howell						
Pitney Bowes 12	18.80%	554,563	1,002.5	\$ 41,268.95	\$ 53,685.91	\$ 98,672.41
Coil Machine	14.86%	438,230	1,756.3	\$ 72,297.86	\$ 94,050.75	\$ 172,861.27
Tension/Cold fusion						
<b>Special Methodologies</b>						
Mixed	5.16%	152,068	5,210.0	\$ 214,473.00	\$ 279,003.38	\$ 512,796.35
Custom	5.80%	171,081	5,875.1	\$ 241,852.53	\$ 314,620.83	\$ 578,259.72
CPU	1.34%	39,402	5,580.2	\$ 229,713.08	\$ 298,828.87	\$ 549,234.77
Bulk	0.87%	25,683	2,666.0	\$ 109,748.66	\$ 142,769.70	\$ 262,404.64
<b>Total<sup>2</sup></b>	<b>100.00%</b>	<b>2,949,548</b>	<b>56,558.1</b>	<b>\$ 2,328,273.33</b>	<b>\$ 3,028,801.38</b>	<b>\$ 5,566,808.24</b>
Note						
1 Kansas City SFS						
2 "Total Orders Filled" could be higher than "SFS Total" in the Order Type & Rev tab due to multiple shipments for the same order numbers.						

<sup>16</sup> There are sources of data from other workbooks, notably USPS-FY12-7, 24, and 2 which are used for wage rates, benefit factors, and piggybacks. Cell C9 of tab “Inputs” is sourced to USPS-FY12-2, but Stamp Fulfillment Services does not appear to be contained in that workbook. The “USPS Accounting System” is cited as the source of the total cost of SFS cost by component in tab “Piggyback cal,” as well as the tab “costs raw.”

The calculation of SFS handling cost appears to be a straightforward exercise. The Work Hours by operation function (i.e. Softpick Manual Packstation) are estimated, multiplied by the direct labor wage rate and the direct labor is then multiplied by the piggyback factor. There are two issues with the mechanics of this calculation. First, Work Hours by operational function are hard coded estimates. As such, the Public Representative is unable to gauge the accuracy of these estimates. Second, the workhours do not appear to be related to the workhours in the tab “SFS Workhours,” as shown in the table below.

<b>SFS Workhour Statistics<sup>1</sup></b>				
FY2012	YEAR TO DATE			
	WKHRS	FY2012 Wage	Total	Adjusted Book Total
Finance	13,673	\$ 63.02	\$ 861,732	\$ 848,231
Admin	26,621	\$ 63.02	\$ 1,677,772	\$ 1,651,486
Order Entry	21,328	\$ 41.17	\$ 877,989	\$ 864,234
Customer Service	42,703	\$ 41.17	\$ 1,757,913	\$ 1,730,372
<b>Total Customer Relations</b>	<b>64,032</b>		<b>\$ 2,635,903</b>	<b>\$ 2,594,605</b>
Cancellation Services	35,314	\$ 41.17	\$ 1,453,737	\$ 1,430,961
Vault	6,568	\$ 41.17	\$ 270,379	\$ 266,142
AFES/Manual	81,347	\$ 41.17	\$ 3,348,734	\$ 3,296,268
Shrinkwrap/Bursting	15,558	\$ 41.17	\$ 640,461	\$ 630,427
Maintenance	31,407	\$ 45.59	\$ 1,431,988	\$ 1,409,553
<b>Total Operations</b>	<b>170,194</b>		<b>\$ 7,145,299</b>	<b>\$ 7,033,351</b>
Computer Room	5,380	\$ 63.02	\$ 339,071	\$ 333,759
<b>Total labor costs</b>	<b>279,899</b>		<b>\$ 12,659,777</b>	<b>\$ 12,461,433</b>
<b>FMLA</b>	5,262			
			Check sum	-
Note				
1 Kansas City SFS				

The total operations workhours in the table “SFS Handling Costs” are 56,588.1. For FY12, the total SFS Operations workhours appear to be 170,194. Detailed analysis of the SFS and Philatelic workpapers reveals that “handling” is recorded under “AFES/Manual,” for which there were 81,347 workhours in FY 2012. Thus, the attributed SFS workhours appear to be a 69.5 percent of the total SFS handling workhours.<sup>17</sup>

<sup>17</sup>(56,558/81,347=0.69527 )

Since both SFS and Philatelic Sales are handled by the same facility, the Philatelic Sales costing workbook was also examined to determine how SFS workhours are allocated. The table below contains the FY2012 cost estimated for Philatelic sales.

<b>SFS Philatelic Products - Handling</b>					
FY2012	% of Orders	Total Orders Filled	Total Work Hours <sup>1</sup>	% related to Philatelic <sup>1</sup>	Philatelic Hours
<b>Softpick</b>					
Manual Packstation	15.25%	449,802	21,464.3	11%	2,361
Semi-Automated Packstation	20.05%	591,492	3,894.0	5%	195
Batches	14.20%	418,818	8,758.9	2%	149
Subtotal-Soft Pick			34,117	8%	2,705
<b>Inserters</b>	3.68%	108,409	351.0	100%	351
Big Pitney Bowes	-	-	-	-	-
Little Pitney Bowes	-	-	-	-	-
Bell and Howell	-	-	-	-	-
Pitney Bowes 12	18.80%	554,563	1,002.5	0%	-
Coil Machine	14.86%	438,230	1,756.3	0%	-
Tension/Cold fusion	0.00%	-	-	20%	-
<b>Special Methodologies</b>					
Mixed <sup>1</sup>	5.16%	152,068	5,210.0	9%	454
Custom <sup>1</sup>	5.80%	171,081	5,875.1	10%	588
CPU	1.34%	39,402	5,580.2	0%	-
Bulk	0.87%	25,683	2,666.0	20%	533
<b>Total<sup>2</sup></b>	<b>100.00%</b>	<b>2,949,548</b>	<b>56,558</b>		<b>4,630</b>
1 Based on Kansas City's best knowledge					

The process for estimating the operational workhours for Philatelic Sales matches the process for estimating the SFS workhours. The same number of “Total Work Hours,” (56,558) appears in both workbooks. The estimate of handling operation workhours for Philatelic sales appears to be a subset of the total SFS handling hours, such as 11 percent of Manual Packstation hours “related to Philatelic.” In the FY 2012 ACD, the Commission noted that it appears that this workbook “double counts” SFS hours by assigning cost to SFS and then assigning a portion of that same cost to Philatelic Sales. In response to CHIR No. 10 question 2, the Postal Service stated that the “4,630 hours are the hours associated with handling Philatelic items at the Stamp Fulfillment Services facility. These hours are part of the total handling hours for that facility. They should not be deducted from the 56,558 total hours spent handling stamps and philatelic items at the Stamp Fulfillment Services facility.”<sup>18</sup>

<sup>18</sup> <http://www.prc.gov/Docs/86/86587/Responses.CHIR10.pdf> question 2.

In both the SFS and Philatelic sales costing workbooks, the estimate of handling operation workhours are hardcoded numbers “Based on Kansas City’s best knowledge.” Furthermore, the “Total Operations” workhours for SFS were over 170,000 in FY 2012, in excess of the combined operations hours for SFS and Philatelic Sales. It appears that the Philatelic workhours are calculated as a portion of the SFS workhours, but the Postal Service states that they are additional workhours. Furthermore, the direct labor cost of Handling Operations in FY 2012 was \$3,296,268. The direct labor costs for SFS were \$2,238,273 and \$190,615 for Philatelic Sales. The two combined account for only 76.4 percent of Total Handling costs.

The calculation of the Total Cost of Philatelic Sales is more complex than SFS. For SFS, the Postal Service only estimates the handling costs. For Philatelic Sales, the Postal Service also estimates Finance, Admin, Customer Relations, Computer Room, and other Operational costs.<sup>19</sup> The FY 2012 calculation of total cost for Philatelic Sales is detailed in the table below.<sup>20</sup>

SFS Philatelic Products Workhour								
FY2012								
	WKHRS	FY2011 Wage	Total	Adjusted Total	Philatelic %s	Direct Labor	Direct Labor with Misc Factor	Total Costs
Finance <sup>1</sup>	16,002	\$ 63.02	\$ 1,008,509	\$ 848,231	2.00%	\$ 16,965	\$ 22,069	\$ 24,585
Admin <sup>1</sup>	28,187	\$ 63.02	\$ 1,776,437	\$ 1,651,486	2.00%	\$ 33,030	\$ 42,968	\$ 47,866
Order Entry <sup>2</sup>	21,678	\$ 41.17	\$ 892,382	\$ 864,234	12.58%	\$ 108,745	\$ 141,464	\$ 201,852
Customer Service <sup>1,4</sup>	41,698	\$ 41.17	\$ 1,716,541	\$ 1,730,372	5.00%	\$ 86,519	\$ 112,550	\$ 296,882
<b>Total Customer Relations</b>	<b>63,376</b>		<b>\$ 2,608,923</b>	<b>\$ 2,594,605</b>		<b>\$ 195,263</b>	<b>\$ 254,014</b>	<b>\$ 498,734</b>
Cancellation Services <sup>1</sup>	35,714	\$ 41.17	\$ 1,470,207	\$ 1,430,961	100.00%	\$ 1,430,961	\$ 1,861,507	\$ 3,000,474
Vault <sup>1</sup>	7,153	\$ 41.17	\$ 294,468	\$ 266,142	20.00%	\$ 53,228	\$ 69,244	\$ 111,611
AFES/Manual <sup>2</sup>	80,075	\$ 41.17	\$ 3,296,380	\$ 3,296,268	-	\$ 190,615	\$ 247,967	\$ 399,685
Shrinkwrap/Bursting <sup>3</sup>	17,341	\$ 41.17	\$ 713,871	\$ 630,427	39.63%	\$ 249,844	\$ 325,017	\$ 523,878
Maintenance <sup>5</sup>	28,991	\$ 45.59	\$ 1,321,853	\$ 1,409,553	2.41%	\$ 34,034	\$ 44,274	\$ 71,363
<b>Total Operations</b>	<b>169,275</b>		<b>\$ 7,096,779</b>	<b>\$ 7,033,351</b>		<b>\$ 1,958,682</b>	<b>\$ 2,548,008</b>	<b>\$ 4,107,011</b>
Computer Room <sup>1</sup>	5,265	\$ 45.59	\$ 240,070	\$ 333,759	2.00%	\$ 6,675	\$ 8,684	\$ 9,674
<b>Total labor costs</b>	<b>282,105</b>		<b>\$ 12,730,717</b>	<b>\$ 12,461,433</b>		<b>\$ 2,210,615</b>	<b>\$ 2,875,742</b>	<b>\$ 4,687,869</b>
	3,936		\$ 269,284	12,461,433				
			Check sum					
Note								
	1 Based on Kansas City SFS's best knowledge							
	2 Cost Studies and Support, 2012							
	3 Based on Kansas City SFS's best knowledge, about 6,872.5 hours are devoted to the Philatelic Products							
	4 Both SFS Customer Service hours and the contracted customer service hours are included.							
	The contracted customers service cost is calculated by using cost per agent call times number of calls answered.							
	5 Based on Kansas City SFS's best knowledge, about 700 hours are devoted to the Philatelic Products							

<sup>19</sup> The Postal Service also calculates the Shipping costs for Philatelic Sales. See “StFS Philatelic2012.xls” tab “Summary” and “Shipping”

<sup>20</sup> The table is copied from “StFS Philatelic2012.xls” tab “SFS Work Hours-Philatelic”

There are several issues with the calculations in the spreadsheet.<sup>21</sup> The only “Direct Labor” estimate that is calculated in the Philatelic workbook is for “AFES/Manual,” the handling workhour estimate described above. The “Philatelic %s” for “AFES/Manual” is null in the spreadsheet because it is not used in the calculation of direct labor.<sup>22</sup> In column 2, the workhours are the FY 2011 workhours. This does not materially impact the calculation, because the “Adjusted Total” cost is multiplied by the “Philatelic %s” to determine the Philatelic Sales “Direct Labor cost.” With one exception, the percentage of direct labor cost attributed to Philatelic Sales is not a function of the workhours in column 2. The calculation of the cost of Philatelic Sales is a function of the hardcoded estimates in the Column “Philatelic %s.”

The most confusing aspect of the SFS and Philatelic sales cost workpapers is the difference between the FY 2012 Total SFS Cost, \$19,046,559 in FY 2012, and the combined cost of SFS and Philatelic Sales, \$10,309,236 in FY 2012.<sup>23</sup> The Public Representative has been unable to locate any documents that would clarify the costing rationale for SFS and Philatelic Sales.

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<sup>21</sup>In column 2, the workhours are the FY 2011 workhours. This does not materially impact the calculation, because the “Adjusted Total” cost is multiplied by the “Philatelic %s” to determine the Philatelic Sales “Direct Labor cost.” With one exception, the percentage of direct labor cost attributed to Philatelic Sales is not a function of the workhours in column 2.

<sup>22</sup> Philatelic Sales are estimated to account for 5.78 percent of AFES/Manual costs.  $(190,615/3,296,268=0.0578)$

<sup>23</sup>Both of these cost estimates do not include shipping costs for Philatelic Sales.